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REMARKS: #139

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October 31, 2006

The Honorable Carlos M. Gutierrez
Office of the Secretary, Mailstop 61
U.S. Department of Commerce
14th & Constitution Avenue, NW
Washington, DC 20230

The Honorable John M.R. Kneuer
Herbert C. Hoover Building (HCHB)
U.S. Department of Commerce/NTIA
1401 Constitution Avenue, NW
Washington, DC 20230

The Honorable Kevin J. Martin,
The Honorable Michael J. Copps,
The Honorable Jonathan S. Adelstein
The Honorable Deborah Taylor Tate
The Honorable Robert M. McDowell
Federal Communications Commission
445 12th Street SW
Washington, DC 20554

Dear Secretary Gutierrez, Acting Assistant Secretary Kneuer, Chairman Martin, and Commissioners Copps, Adelstein, Tate and McDowell:

With your leadership, our nation will make an important transition in early 2009, when all broadcast signals for analog televisions cease and are replaced by digital signals. This is an enormous undertaking, and, while it may seem somewhat distant, in terms of what needs to be done to ensure a successful transition, it is just around the corner. I write today to underscore how important it is that everyone – affected industries, relevant government agencies, and Congress – work together to make this transition as seamless as possible. And I do so because I believe there are decisions that must be made now in order to ensure that we don't walk into a consumer and political disaster.

When I testified before Congress last year on this subject, I made clear that the cable industry strongly supports the goals of the digital transition. I also pointed out that, while many have focused on assisting so-called "over the air" households with the transition, the greatest number of analog televisions are in cable households. And, in fact, even where households subscribe to cable services, those households contain tens of millions of televisions that only receive analog signals "over the air" – often that second or third television in a kitchen or bedroom.

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NOV 1 2006

Congress attempted to address the obvious problem that hundreds of millions of televisions would become obsolete in an instant by establishing a program at the National Telecommunications and Information Administration (NTIA) to help deploy digital-to-analog “converter” boxes and minimize consumer costs. And, as you know, if that problem of obsolescence is limited to “over the air” households that currently don’t subscribe to cable or satellite services, it is a huge undertaking, but a manageable one. If, however, one takes into account all of the cable households, in which we estimate there are 130 million analog television sets, the complexities of the transition – to say nothing of the costs – soar.

Thus, in order to support your efforts, the cable industry committed to managing the transition in a way that is as seamless as possible, minimizing the financial impact on consumers, without placing a huge fiscal burden on the Treasury. This requires three steps.

First, we committed to lead a consumer education program in partnership with other industries – and this past spring announced that we would team with the consumer electronics industry to do just that. Second, we made a significant commitment that we would carry not only digital signals but also recreate signals in analog wherever possible to ensure that our customers with analog televisions were not adversely affected. All we asked for was some flexibility in ensuring that this voluntary additional burden would not displace other needed services or channels our customers demand. And Congress attempted to address this in a fair and sensible way, first in the reconciliation bill that passed the House last year, and, more recently, in the bill that was reported out of the Senate Commerce Committee.

However, the third necessary step is to ensure that all owners of “over the air” televisions who so choose, can purchase a device that converts a digital signal to analog, and do so at the least expense.

Perhaps the most important way to accomplish this goal is the program NTIA is currently implementing, which would provide vouchers for digital-to-analog converters. *However, as I testified last year to Congress, there is no principled justification for granting eligibility for such vouchers to one class of television owners – in “over the air” households – and denying eligibility to another class of “over the air” television owners who also happen to have cable or satellite service on another TV in their home.*

Fortunately, the cable industry is in the midst of its own digital transition, and to the extent government policies encourage that transition – or at least do not discourage it – cable customers with analog televisions will increasingly opt for digital set-top boxes with lower and lower costs. Thus, while we do not agree with those who would deny eligibility of vouchers to cable customers, we believe that other government policies can and should ensure a seamless transition for all television viewers.

But there is a serious disconnect in government policies that threatens the digital transition.

At the same time that NTIA is grappling with how to implement a voucher program to aid consumers, the Federal Communications Commission (FCC) is about to decide whether to continue a policy that will tax all cable customers and discourage the migration of analog television owners into the digital age.

Because of an FCC rule scheduled to go into effect next year (the "Integration Ban"), all digital cable boxes deployed after July 1, 2007, will cost more but will have no added features or functions. This rule requires that, by July 1, 2007, cable operators must reengineer the cable boxes they lease so that these boxes use an insertable security card (a "CableCARD") that performs the same "security" and "descrambling" functions that current "integrated" boxes already perform. The additional cost of these cards and the reengineered box components amounts to a \$72-\$93 price increase for the box above the cost of an integrated box that performs exactly the same functions. That translates into a price increase of \$2-\$3 per month per box for consumers using these boxes.

CableCARDS are now used in "cable ready" television sets and digital video recorders (DVRs) that can be purchased at retail outlets. They enable the owner to take those devices anywhere in the United States and know that they will work with the local cable system. *The cable industry remains fully committed to supporting the use of CableCARDS in those retail "cable ready" devices.* But there is no justification for forcing the cable operator to add these costs to an integrated box it leases to a customer since, by definition, that box already works in the cable system in which the customer has cable service and it is not taken to a different system when the customer moves.

This requirement is all the more puzzling since there is a newer technology on the near-term horizon – downloadable security – which is a more efficient, less costly and more consumer-friendly option than the CableCARD for separating security in both cable-supplied leased boxes and "cable ready" devices purchased at retail.

At a time when Congress and the Administration have made the digital transition a national priority and when one government agency is preparing to subsidize "over the air" households to the tune of \$40 for each digital-to-analog converter, it is incomprehensible that another government agency should simultaneously force consumers to pay \$2-\$3 *per month per box* more for leased set-top boxes that will help facilitate the digital transition for millions of viewers *without* any government subsidy.

The alternative is to make all cable households eligible for the NTIA voucher program. But that would either add enormously to the cost of the NTIA program and to the U.S. Treasury, or, since the current budgetary authority for this program is limited, severely diminish the financial support that is provided for those who are deemed eligible.

The National Cable and Telecommunications Association (NCTA) and Verizon have filed requests with the FCC seeking deferral of the Integration Ban until downloadable security is deployed, or, in the case of the NCTA request, until December 31, 2009 if downloadable security is not deployed by that date. Granting those requests would largely accomplish what is necessary to ensure cable customers enjoy a seamless digital transition. We respectfully ask for your support to ensure that the digital transition is a success.

Sincerely,

A handwritten signature in black ink, appearing to read 'K. McSlarrow', with a long horizontal flourish extending to the right.

Kyle McSlarrow

Cc: The Honorable Joe Barton
The Honorable John D. Dingell
The Honorable Daniel K. Inouye
The Honorable Edward Markey
The Honorable Ted Stevens
The Honorable Fred Upton